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Competitor Review - mid-January thru February 1995

RJ Reynolds

RJR Nabisco Holdings Corp. reported that fourth quarter net income, excluding one-time charges for restructuring and debt retirement, was \$204 million versus \$38 million for fourth quarter 1993. Net sales for the quarter were flat at \$4.0 billion. Full year 1994 net income before one-time charges increased 73.7% to \$806 million from \$464 million in 1993. Net sales for 1994 advanced 1.7% to \$15.4 billion. EPS climbed almost 38% to \$0.44 on a fully diluted basis and was in agreement with industry analysts' expectations for the quarter and the year to date.

RJR Nabisco Corporate Results

RJR Nabisco						
Consolidated Results	4 Qtr. 94	4 Qtr. 93	% Chng	FY 1994	FY 1993	% Chng
Net Sales	\$4,044	\$4,051	(0.2)%	\$15,366	\$15,104	1.7%
Operating Income (Before Amort.)	\$725	\$571	27.0%	\$3,179	\$2,733	16.3%
Operating Margin	17.9%	14.1%	3.8pp	20.7%	18.1%	2.6pp
Net Income	\$62	\$(461)	100+%	\$519	\$(145)	100+%
EPS	\$0.02	\$(0.35)	100+%	\$0.26	\$(0.12)	100+%
Add Back Adjustments:						
Restructuring Expenses, Net	\$42	\$467	(91.0)%	\$42	\$467	(91.0)%
Debt Retirement, Net	\$100	\$32	100+%	\$245	\$142	72.5%
Pro-Forma Net Income	\$204	\$38	100+%	\$806	\$464	73.7%
Pro-Forma EPS	\$0.11	\$0.01	100+%	\$0.44	\$0.32	37.5%

RJR's improved performance was driven by **Domestic Tobacco**, which increased full year 1994 operating income by 22.9% to \$1,475 million from \$1,200 million in 1993 due to improved premium unit mix, higher margins from marketing spending cuts and, to a lesser extent, reductions in operating costs from the 1993 restructuring. **International Tobacco** also reported a strong gain in earnings, rising 17.2% to \$755 million, due to volume gains (+6%), lower product costs and reduced promotional spending. **Food** profits exceeded the billion dollar mark for the first time, advancing 16% to \$1,160 million from \$995 million in 1993. Net food sales in 1994 jumped 10% to \$7.7 billion due to the continued success of new products, domestic market share gains and international growth.

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RJR Domestic Tobacco

(\$ Millions)	4 Qtr. 94	4 Qtr. 93	% Chng	FY 1994	FY 1993	% Chng
Unit Volume (Bil.)	30.4	33.8	(10.1)%	130.6	141.0	(7.4)%
Net Sales (Ex. FET)	\$1,075	\$1,091	(1.5)%	\$4,570	\$4,949	(7.7)%
Per M	\$35.35	\$32.24	9.6%	\$35.00	\$35.10	(0.3)%
Total Operating Expenses	\$775	\$961	(2.0)%	\$3,095	\$3,749	(17.4)%
Per M	\$25.49	\$28.39	(8.9)%	\$23.70	\$26.59	(10.9)%
Operating Income	\$300	\$130	130.8%	\$1,475	\$1,200	22.9%
Per M	\$9.86	\$3.85	156.8%	\$11.30	\$8.51	32.8%
Operating Margin	27.9%	11.9%	16.0pp	32.3%	24.3%	8.0pp

RJR domestic tobacco quarterly operating income rose 130.8% to \$300 million, slightly below our estimate of \$325 million. We believe profits were up largely due to a perceived reduction in price promotion. Quarterly net sales fell 1.5% to \$1.075 billion, as volume dropped 10.1% due to the decline of both premium (-8%) and discount (-13%) units. Full year 1994 operating income jumped 22.9% to \$1,475 million, in line with analysts' estimates. The profit increase was due to marketing spending cuts (price promotion), an improved premium volume mix (+3.6 points), and reduced operating costs (\$100 million) stemming from the 1993 restructuring.

RJR International Tobacco

RJR International Tobacco reported that operating income rose 25% in the fourth quarter to \$198 million as the result of reduced product costs and lower marketing/selling expenses. The performance exceeded several analysts' expectations. Unit volume and net sales in the quarter were both down approximately 16% due to trade inventory adjustments (inventory buildup in Russia in 1993), mix, and a change in fiscal year end. Management stated that after adjusting for the change in fiscal year end, volume and net sales rose 11% and 5%, respectively. Excluding the extra month of profits (\$39 mil.) included in 1993 (13 months), operating income for the fourth quarter actually advanced 66% versus year ago.

Full year 1994 operating income advanced 17% to \$755 million due to volume gains, lower product costs and reduced promotional spending. Operating income for full year 1994 increased almost 25% when the extra month of profits in 1993 is excluded (\$39 mil.). Operating margin improved by 3.8 percentage points to 24.4%, reflecting management's claim of lowered operating and marketing costs. Unit volume advanced 6% with strong gains in Eastern Europe, Turkey, Malaysia and Spain. Net sales were down 1% to \$3,097 million.

Competitive Strategy

RJR appears to be waging a "quality war" in 1995. Marketing communications across brands focus primarily on taste and the quality of the tobacco used. Camel has "genuine taste" and is a "genuine classic" due to its 80 year tenure. Winston Select is "perfectly aged tobacco" yielding a "premier full flavor cigarette with a superior taste." Now is the low tar offering with the "smooth, satisfying taste." Salem's OOH ads tout "the taste will win you over." The overriding message is product quality and taste attributes.

New Winston Select

Winston has announced a limited introduction of New Winston Select featuring the Select Flavor Filter in the Oklahoma test market. This new tip is available on all six styles of Winston Select and will replace those currently in the market. The packings will be supported with high retail visibility and trial generating programs throughout the introductory period. Materials include POS and pack and carton displays. The advertising depicts a product sample with the filter detached, enlarged and labeled "Select Flavor Filter." The copy further states, "Lets the smooth flavor of Select's perfectly aged tobaccos flow through to you." PM has learned that Penthouse will run the ad in either the April or May issue.

It is reported that the Select product contains a novel carbon-containing (charcoal) filter.

Salem Preferred FF 100's and Lights 100's

In Section 44 RJR has announced its introduction of Salem Preferred Menthol, with shipments beginning February 27. An introductory promotional payment of \$7.50 per 6M case is offered on all Salem Preferred shipments between February 27 and April 21. List price and terms are equal to those of current styles of Salem (\$11.19/carton - \$335.70/6M case).

Retail promotional support includes BIGIF pack and Buy One Carton get 5 packs free.

1995 Promotional Plan

It has been reported that R.J. Reynolds' promotional plan intends to provide national support for three brands in 1995: Winston Select, Camel and Doral. With the exception of three periods, RJR will focus on one particular brand during any given month.

The months with overlapping activity are May (Doral and Select), August and November (Doral and Camel).

February, May, August, and November are designated "Co-Marketing" months.

- Doral

Doral's national promotion employs both free product and cents off. The promotions for this brand are scheduled for February, May, August, November and December. Doral is planning to execute a carton promotion concurrent with each pack promotion.

Feb/May	B2G1F Packs B2CtnG1CtnF B1CtnG 1/2 CtnF
Aug/Nov/Dec	\$.75 off 2 pks
Aug/Nov	\$ 6.00 off 2 ctn
Aug/Nov	\$10.00 off 3 ctn

- Camel

Camel activity is scheduled for March, June, August, September and November featuring incentive items, free product and price off.

March	B3G3F Packs
Sept.	B2G2F Packs
June	3 -pack T-shirt
Aug	Collector pack
Nov	\$1 off 2 packs 3-pack Hat

- Winston Select

Winston Select promotions run in January, April, May, July and October. Select uses free product, price off and an incentive program.

Jan/Oct	B2G2F Packs
April	2 -pack lighter
May	Bonus pack
July	\$1 off 2 packs 2-pack Country Western Tape

In addition to the national consumer promotions, RJR is planning an overlay of distributor promotions. Doral offer includes a \$.25 off one pack promotion (Feb/May/Nov) while Select and Camel will be supported by B1G1F (March/April) as well as \$.60-.80 off 2 packs (2nd half 1995).

Use of Cartons for Corporate Affairs Messages and Mail-Back Signature Statements

Salem Slim Lights 100s and Camel Non-filter cartons are being utilized for "Together, We Can Work It Out" opinion statements and cut-out-and-return agreement statements.

RJR is using the inside surfaces of Salem Slim Lights 100s and Camel Non-filter cartons to state company and industry positions on smoking issues "in the interest of an informed debate." The Salem message, entitled "Today It's Cigarettes. Tomorrow?" explains how governmental agencies, departments and Congress are attempting to prohibit smoking in the U.S. and suggests that if they are successful, prohibition of alcohol will follow, and then books, movies and music will be the next targets pursued. The Camel carton pictures and quotes a state employee of the Florida Division of Air Resources who worries that the current anti-smoking legislation will erode Americans' basic freedoms: "If the government gets its way, the pursuit of happiness will no longer be my inalienable right."

Both cartons invite smokers to call 1-800-95 NO BAN (1-800-956-6226) for further information, and solicit smokers' signatures on mail-back statements that indicate a 3 next to the statement: "I oppose all government efforts to prohibit smoking. I want to protect my right to smoke ... at work, in public, at home." Space is provided for name, address, phone and signature certifying that signer is 21 or older next to a "Mail To:" address.

Direct Mail Activities

- Camel

Camel has dropped another direct mailing from "Camel Genuine Taste" headquarters employing the "Secret Spy Mission" theme. The copy plays on Camel's 80 years of Genuine Taste, thereby designating the brand a genuine classic. This piece contains the Genuine Taste Survey #2 and reminds recipients to complete all surveys to qualify for a free carton. In addition, two coupons entitle the bearer to \$3 off 4 packs or a carton as well as \$5 in Camel Cash. The entire piece is dedicated to Camel's 80 year mission to consistently provide "Genuine Taste."

Background: this mission challenges smokers to try one style of Genuine Taste in lieu of their regular brands for 80 days. During this period, the participant is asked to complete a total of three surveys describing the Genuine Taste and collect 75 UPC codes towards a collector's Zippo® lighter.

A separate Top Secret mailing from "Genuine Taste Headquarters" includes two order forms. One offers 4 packs of Camels in any style for 20 Camel C-notes; the other offers a "Genuine Taste Zippo®" lighter for 75 UPC codes from Camel packs. Orders must be received by 4/30/95.

- Camel (VIP Club) Classifieds 1995 Calendar

Camel's "Year of the VIP" calendar features a "Get The Gold" Sweepstakes offer which includes a postage-paid VIP Club Survey; a Camel 8-Ball Classic Pool Tournament; a chart listing "Smokin' Joe's Racing Events" (Winston Cup, Winston Drag, Superbike and Hydroplane), via "Joe's VIP Travel"; and "big deals" on Camel Cash Goods. This mailing also contains a toll-free number for ordering a new biker's edition and/or pool classics edition of the Camel Cash Catalog.

Get The Gold Sweepstakes — Sweepstakes prizes are a solid 18K gold Zippo® lighter and a carton of Camels each week for a whole year (total prize value: over \$3,000); no postage or purchase necessary. Inside back cover lists official rules. Survey questions:

1. What is your usual brand of cigarette?
2. Out of your last 10 cigarette purchases, how many were Camel?
3. Currently, what is your favorite style of Camel? (Check one from each row.)
4. Are you: Male Female
5. Are you a serious fan of: (check all that apply)
 - Winston Cup Racing
 - Drag Racing
 - Superbike Racing
 - Hydroplane Racing
6. Do you own a: Motorcycle____(Y/N) Pool Cue____(Y/N)
7. How often do you: (choose from: Often, Occasionally, Never attend but interested, or Not at All) [circle one]
 - Attend Motorcycle (Biker) Events/Rallies?
 - Play Pool (Billiards)?
 - Attend Motorsport Racing Events?

Smokin' Joe Racing Events — Two-page chart listing Winston Cup, Winston Drag, Superbike and Hydroplane Races. Indicates which events have reserved VIP sections, ticket and hotel packages or travel planning available via Joe's VIP Travel Service (phone number provided). Cost is for travel arrangements and tickets plus 20 C-notes for travel planning. VIP Travel provides tour packages; cruise, plane or train tickets; car rentals and hotel reservations; reserved VIP sections at selected races; Welcome Bag filled with collectibles; prize drawings for Pit Tours; Special drawings as an honorary pit crew member.

VIP Treatment for Bikers — VIP Bikers can go to the Camel Roadhouse at motorcycle rallies and get special VIP treatment and deals on Camel goods.

Special Membership in the American Poolplayers Association — Camel is offering non-renewable American Poolplayers Association (APA, the governing body of amateur pool) membership to first-time members only for the VIP price of 25 C-notes. Games available in the Bud Light 8-Ball and Dynamo 9-Ball Leagues, or Camel 8-Ball Classic tournament.

Camel "Big Deals" -- Some articles are from Camel Cash Catalogs and some are first-time offers. Items listed and number of C-Notes required:

Joe's Journey Watch	90
Camel Sunglasses	20
Camel Can Cooler	20
Biker Zippo®	65
Genuine Taste Glass Stein	90
Large Classic Starter Jacket	425
X-Large Classic Starter Jacket	425
Set of 5 Hard Pack Holiday Lighters	50
APA Membership (Limit: 1)	25

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- Now

Now dropped a direct mailing just prior to year-end 1994. It contains both a survey with product taste and preference questions and free product offers. There are two \$3 off a carton or four packs and an order form for \$10 off a carton coupon with 50 pack UPC symbols. Consistent with RJR's focus on taste and quality, the copy describes Now's smooth, satisfying taste and low tar.

Winston Racing

RJR is adding \$500,000 to the 1995 season point fund, raising the total to \$3.5 million. A portion of these incremental dollars will go toward a pair of \$100,000 bonuses reserved for the series point leader following the Winston Select 500 at Talladega, AL (9th race of the season) and the Brickyard 400 at Speedway, Ind (19th race). The title payoff now stands at \$1.3 million.

RJR Chooses New Agency for Discount Brands

RJR has chosen Coyne Beahm Inc. of Greensboro for the advertising of its discount brands. The account was previously held by Long Haymes Carr Lintas of Winston-Salem, which will continue to handle media buying, sports marketing and special assignments for Reynolds. Peggy Carter, spokesperson for Reynolds, said the company was looking for new ideas and a fresh approach. She declined to estimate how much the account is worth.

Total RJR Discount Brands' 1994 reported media spending was \$12.8 million.

OOH Advertising

Extensive OOH buy sheets for Doral for May and June were reported.

New Eclipse Cigarette

It is rumored that RJR has fixed the taste problem (Premier to Eclipse) and will launch Eclipse this year. It is further reported that if Eclipse fails in test market, RJR may consider moving some production off-shore.

Rumored Personnel Cutbacks

The local trade and businesses in the Winston-Salem area claim that RJR will offer early retirement/voluntary separation to 500 hourly employees. It is also reported that RJR plans to scale back its sales force in March.

However, one executive placement agency in Winston-Salem claims that RJR is looking for new talent and is presently in a hiring mode for Marketing, Finance, and Engineering positions.

Executive Appointments Announced

Kevin L. Verner has been promoted to VP of New Business Development for RJR

Tobacco Co. He was the director of New Business Development.

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On February 16, RJR Nabisco Holdings announced that Lawrence R. Ricciardi, its President and General Counsel, and Eugene R. Croisant, Executive VP, Human Resources and administration, plan to retire from the company, effective March 3, 1995.

Coinciding with Messrs. Ricciardi's and Croisant's retirements: Steven F. Goldstone, a partner at the law firm Davis Polk & Wardwell, has been named General Counsel; Jo-Ann Ford, Vice President, Assistant General Counsel and Secretary, has been named Senior VP, Law; and Gerald I. Angowitz, VP, Human Resources, has been named Senior VP, Human Resources and Administration.

Nabisco Holding Corp. Public Stock Offering

RJR Nabisco Holdings Corp. successfully offered 19.5% of Nabisco for sale to the public Thursday, January 19. The initial sale of stock, priced at \$24.50, raised approximately \$1.3 billion and was the most heavily traded stock in its first day of trading as a separate company. The money raised will reportedly be used to reduce debt. Analysts view the offering as the first step in an effort by RJR to separate its food and tobacco businesses.

RJR's Chairman and CEO Harper (age: 67) Sells Shares

Charles M. Harper, Chairman and CEO of RJR Nabisco Holdings Corp., sold 311,111 shares, or half his stake in the company last month, and spent the proceeds on shares of its Nabisco Holdings Corp. unit. Mr. Harper had been required to buy more than 600,000 shares of the company when he began working there in 1993. The sale of Mr. Harper's RJR Nabisco stock was conditioned on his buying Nabisco Holdings shares. RJR Nabisco bought back half Mr. Harper's shares on Jan. 19 at \$5.63 each, valuing the sale at about \$1.75 million. Mr. Harper, who is also chairman of Nabisco Holdings, then bought 71,429 shares of the food unit Nabisco Holdings at the initial public offering price of \$24.50, the company said.

KKR Reduces Stake in RJR / 37.5¢ Common Dividend Declared

The Wall Street Journal reported that KKR will reduce its stake in RJR to 8% from 16%, as part of its \$1.88 billion acquisition of Borden Inc., which was paid for with RJR stock. The recent stock sale by KKR is aimed at providing additional capital (estimated at \$690 million) to help turn around Borden's troubled food and chemical businesses.

Separately, RJR Nabisco said its board approved a 1-for-5 reverse stock split. If approved by shareholders in April, the move would convert every five RJR shares into one share. The company also declared an initial cash dividend of 7.5¢ a share, payable April 1 to holders of record March 10.

RJR said the quarterly cash dividend would be adjusted upward fivefold to 37.5¢ a share following the reverse split. The split would reduce RJR's shares outstanding to 272 million from 1.36 billion. Analysts said the reverse split would increase

RJR's share price fivefold to approximately \$30, an area that's more attractive to institutional investors.

Shareholder Suit

A small group of former employees is suing RJR Nabisco Inc. for \$4 million for neglecting to disclose the impending leveraged buyout in 1989. In August 1988, the nine employees had options to buy 51,161 shares of stock, and the company offered to buy them back at a \$4.75 market premium. The offer specifically stated that the company had no plans or proposals which would relate to or result in a merger, reorganization or liquidation. The group is suing for compensatory damages on grounds that they could have doubled their money if they had been informed of the takeover plans.

Brown & Williamson

First Half 1995 Promotional/Merchandising Programs

B&W has reportedly released details of its First Half 1995 promotional and merchandising programs to the trade. The highlights of these programs are shown below:

Promotion Calendar

Kool	Jan-Aug (except April)	Ongoing discount SIP B1G1F
	May-Aug	Tape Ons
Pall Mall	Jan-Mar	Tactical discounting
	Apr-Jun	Franchise retention
Tareyton	Jan-Mar	Tactical discounting
	Apr-Jun	Franchise retention
GPC	Jan-Jun	Ongoing discounting
Misty	Jan-Jun	Ongoing discounting
	Apr-Jun	B1G1F
Montclair	Jan-Jun	Ongoing discounting
Capri	Jan-Jun	Ongoing discounting*
Lucky Strike	Apr-Jun	Tactical discounting

* Where it makes sense

Summary: B&W will continue discounting all brands during 1Q and 2Q 1995, including Montclair. Note-Kool hiatus month is April.

- American Tobacco Co. Brands Transitional Phase

Customers will continue to order American product through the existing American system with the same credit terms. Although American's returned goods policies

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remain intact, B&W will not pick up AVA brands for any reason. Retailers were instructed to return them directly to their wholesaler.

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- Performance Plus Retail Program Changes

B&W and American volume is now combined.

- The first and second volume buckets were collapsed to a minimum level of 40-60 CPW
- Revised minimum volume for carton outlet: 40CPW (from 24) and pack outlet: 15CPW
- Payment brackets: Pack outlet (silver/gold/platinum)
 - 15-25 CPW (\$60/90/110)
 - 26-35 CPW (\$75/115/140)
 - 36-60 CPW (\$105/130/160)

3 Payment levels:

Silver-provide sales volume, facings commensurate with share of market

Gold-satisfy Silver and grant 1st, 2nd or 3rd marketing position, permanent POP

Platinum-satisfy Gold plus free -standing display and enhanced signage

(Payments are less for non-self -service)

- Plan APP-Distributor/Wholesaler

- Three levels

Associate-no off-invoice deductions, carry all B&W brands, opportunity to meet competition (\$.02 per carton paid quarterly)

Partner-above plus provide retail store data, EFT, inventory management (.02 above plus \$.06 per carton-paid quarterly)

Bonus-GPC's SOM places it #1 non-full revenue brand (\$.08 above plus either .02 for Silver or \$.04 for Gold...Gold is paid annually).

- Plan BPP-Direct Chain Account

- Very similar to APP
- Payment is reduced by half if reporting plan is manual vs. computerized

- Plan CPP-Wholesale Club

- Very similar to APP

- First Quarter 1995 Payments

- American contract payments will continue until 3/31/95
- TSMs will manually track American volume 1Q 1995
- To qualify for 2Q 1995 payments, all outlets must be presented the new Performance Plus Program and be reset by 4/30/95.

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- Display Brands

<u>One Display</u>	<u>Two Displays (1)</u>	<u>(2)</u>
Kool	Kool	GPC
Carlton	Carlton	Misty
GPC	Capri	Montclair
Misty		

- Post 3/31/95

- B&W and ATC volume will be combined in hand-held tracking system. However, AVA volume will continue to be tracked separately.
- ATC inventory will be reduced to 2-3 weeks
- B&W and ATC displays/space will be combined
- B&W personnel will not work AVA brands at retail (Prime, Private Stock and Summit) but will verify returns and track distribution
- Brand strategy has shifted from Kool, GPC and Capri to:
Kool GPC
Carlton Misty
Capri Montclair
- Sales force will focus on decreasing excess inventory.

Montclair/Food Lion Alliance

Montclair had teamed up with Food Lion to offer price-offs on everyday food items with a Montclair carton purchase. A direct mail piece explains the details of the offer and includes six \$1 personalized checks for savings on other Food Lion purchases. The items featured range from milk to orange juice to a wild card item.

Misty

It is rumored that Misty will be supported aggressively here and abroad.

OOH Advertising

It is reported that all of American Tobacco brands' existing schedules have been canceled with the exception of Misty.

GPC Rumor

It is rumored that B&W is considering a market test in Arizona to reposition its GPC brand as a heavily discounted premium cigarette.

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Rumored Potential Buyer of Montclair Trademark and Reidsville Plant

Peter Strauss, former Senior VP, Trade Marketing and International Operations at American Tobacco, is reportedly attempting to obtain off-shore financing to purchase the Montclair Trademark and Reidsville Plant from B.A.T. It is further rumored that Mr. Strauss has discussed possible financing arrangements with Rothmans; but more recently has approached a Japanese company.

Former American Tobacco Employees

B&W laid off 1,680 former American Tobacco employees. The Richmond Times-Dispatch reports that B&W set up a transition hot line to answer salaried workers' questions about wages, benefits and severance benefits for the terminated American employees. A recorded message in question-and-answer format on the toll-free number includes information about "involuntary termination" and a "salary continuation period" for workers. It also told the former American Tobacco employees that their workweek has increased from 35 hours to 40 hours.

The Richmond Times-Dispatch also reported that briefcases, bags and even lunches of employees at the former American Tobacco plant in Chesterfield County were being searched by guards under the new ownership of B&W.

B&W reportedly terminated all but 29 representatives from American's salesforce. The majority of the retained representatives were responsible for servicing American's AVA (American Value Alliance) customers.

Approximately 200 workers at the Reidsville plant may be offered transfers to Macon, GA., where B&W plans to shift production during the next 16 months. B&W has started to gradually shift production of certain brands to the Macon plant. Transfers would likely leave about 850 Reidsville employees facing layoffs or early retirement before the middle of 1996 unless a buyer is found for American's remaining brands. B&W would not confirm how many of the employees from its recently acquired American Tobacco will be needed, but did say it will honor a labor contract that will expire in June.

Grey Ad Agency Receives Silk Cut Account

B.A.T. Industries PLC has expanded its relationship with London's Grey advertising by naming the agency to handle its Silk Cut brand in markets outside Europe. B.A.T. recently acquired the rights to Silk Cut outside Europe through its acquisition of American Tobacco from American Brands.

Backgrounds of Selected B.A.T. Management

- **Sir Patrick Sheehy, age 64, Chairman since 1982:** *Joined B.A.T. as a management trainee in 1950. Appointed Chairman, B.A.T. in 1982. Served as Chairman of the Tobacco division from 1976-1982. Has a strong background in tobacco and financial services. Known to run the company through a triumvirate: himself, a finance director, and a tobacco person.*

- **Martin Broughton, age 46, Chief Executive and Deputy Chairman since April 1, 1993:** Signed a three-year contract in 1993. Continues as Managing Director, Financial Services Group and Chairman of Eagle Star. Has a strong finance and international background. He started at B.A.T. in 1971 as a traveling auditor in South Africa, Argentina, and Hong Kong. He is a non-smoker, but very much a tobacco man.
- **Ulrich Herter, age 52, Managing Director, B.A.T. Worldwide Tobacco since April 1, 1993:** Has experience in Leaf and Marketing (product development). Appointed to the Board in October 1990. Previously served as Chairman of B.A.T. Cigaretten Fabriken (which he joined as marketing director in 1985). He is in charge of the group's global tobacco operations. Mr. Herter also signed a three-year contract in 1993. He is considered to be technology-driven, for him the product side is important. He was quoted saying, "The consumer does not buy advertising; he buys a product."

Records Seized from B&W Headquarters

According to the Courier-Journal, more than 30 federal agents from the U.S. Customs Service and the Bureau of Alcohol, Tobacco, and Firearms seized hundreds of boxes of internal corporate documents concerning "international sales" from B&W's head office in Louisville, Ky. Agents are allegedly trying to determine whether the company failed to pay U.S. taxes on cigarettes imported from Canada into the United States.

Former B&W executives said agents sealed offices in the finance department and downloaded records from computers.

AMERICAN BRANDS, INC.

Corporate Results

American Brands Consolidated Results	4Q 94	4Q 93	% Change	FY 1994	FY 1993	% Change
Net Sales (Incl. FET)	\$3,750	\$3,510	6.8%	\$13,147	\$12,631	4.1%
Operating Income (Before Amort.)	\$439	\$365	20.1%	\$1,409	\$1,273	10.7%
Net Income (before accounting charge)	\$472	\$144	100+%	\$885	\$541	63.6%
Net Income (after accounting charge)	\$269	\$187	43.9%	\$734	\$470	56.3%
EPS From Continuing Operations	\$1.02	\$0.71	43.7%	\$3.06	\$2.67	14.6%
Gain on Disposal of Businesses	\$1.32	\$0.00	100+%	\$1.32	\$0.00	100+%
Discontinued Operations	\$(1.01)	\$0.20	(100+)%	\$(0.75)	\$0.63	64.0%
Accounting Changes	\$0.00	\$0.01	(100+)%	\$0.00	\$(0.98)	100+%

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Net EPS	\$1.33	\$0.92	44.6%	\$3.63	\$2.32	56.5%
EPS - Fully Diluted	\$1.28	\$0.91	40.7%	\$3.53	\$2.29	54.1%

American Brands, Inc. reported that full year 1994 net income advanced 56% to \$734 million as net sales increased 4% to \$13.1 billion. EPS rose 44% to \$3.06 a share, in agreement with industry analysts' expectations. The rebound in earnings was driven by domestic tobacco profits, which increased 46% to \$248 million versus \$169 million in 1993. Other business units registering profit growth were International Tobacco (+7%), Distilled Spirits (+6%), Hardware & Home Improvement Products (+14%), Office Products (+7%) and Golf Leisure Products (+12%).

During the fourth quarter, the company completed the sale of The American Tobacco Company to BAT Industries for \$1 billion and announced an agreement to sell the Franklin Life Insurance business for \$1.17 billion. The company announced that it intends to dispose of a number of other non-strategic businesses and product lines in the near future.

The company also announced a \$578 million pretax gain on the sale of American Tobacco.

ATC DOMESTIC TOBACCO

	<u>4Q 94</u>	<u>4Q 93</u>	<u>% Change</u>	<u>FY 1994</u>	<u>FY 1993</u>	<u>% Change</u>
Unit Volume (Billions)	9.6	8.4	14.7%	36.3	31.1	16.7%
Net Sales (\$ Millions)	\$387	\$358	6.7%	\$1,595	\$1,502	6.2%
Net Sales (Excl. FET)	\$272	\$257	5.8%	\$1,159	\$1,129	2.7%
Per M (Excl. FET)	\$28.33	\$30.60	(7.4)%	\$31.93	\$36.30	(12.0)%
Operating Expenses	\$199	\$246	(19.1)%	\$911	\$960	(5.1)%
Per M	\$20.73	\$29.29	(29.2)%	\$25.10	\$30.87	(18.7)%
Operating Income	\$73	\$11	100+%	\$248	\$169	46.3%
Per M	\$7.60	\$1.31	100+%	\$6.83	\$5.43	25.8%
Operating Margin (Excl. FET)	26.8%	4.3%	22.5pp	21.4%	15.0%	6.4pp

ATC domestic tobacco fourth quarter operating income jumped to \$73 million from only \$11 million for the same period in 1993 due primarily to a 15% increase in unit volume, particularly discount brands Montclair (+81%) and Misty (+21%). Profits exceeded analysts' estimates by \$25 million for both the fourth quarter and the full year. Profits in fourth quarter 1993 were very low due to high levels of price promotion and additional costs associated with the company's restructuring.

ATC operating income for 1994 reached \$248 million, up 46% versus year-ago as net sales increased 6% to \$1.2 billion. Year-to-date unit volume increased 17% due to very strong performances by discount brands Montclair (+78%) and Misty (+32%). Montclair was the focus of an intense marketing effort by the American sales force in the fourth quarter. In testimony to the FTC during hearings on the BAT/ATC merger, ATC senior management testified that promotion levels on Montclair in the fourth quarter were seriously impairing the brand's profitability and were not sustainable. In addition, premium volume increased over 3% due to improved trends for Carlton and Pall Mall. Besides higher volume, management stated that year-to-date profits benefited from costs savings stemming from the 1993 restructuring.

International Tobacco

International Tobacco (Gallaher) 1994 operating income advanced 7% to \$522 million as net sales increased 4% to \$6.2 billion. UK cigarette volume declined 10% largely as a result of a 1993 change in the timing of the UK government budget (excise taxes) and the related forward buying by the trade. Gallaher's share of the UK market continued to approximate 40%. Exports were up 70%, reflecting increased shipments of B&H to Continental Europe and a substantial increase in shipments to C.I.S.

Liggett

Southern California Exclusivity Agreement

It is reported that Liggett will be exclusively supplied in Southern California by GSC Ball. Sunset, a Liggett direct account, has signed with Ball to purchase L&M products.

It is further reported by several other wholesalers across the nation that GSC Ball is one of three master distributors appointed by Liggett. The remaining two master distributors are L. J. Zucca in Vineland, NJ and Farmer Bocken in Carroll, Iowa.

New Product

Liggett has introduced a new discount brand, Grand Prix, in Section 13 (New York/New Jersey area) priced at \$1.39.

Financial News

- Dividend declaration

Liggett Group's parent company, Brooke Group, will resume paying a quarterly cash dividend for the first time since 1992. The \$.075 per share was paid February 13, 1995 to shareholders of record February 6.

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- Health Care Coverage

As of January 1, Liggett is requiring former employees to bear the full burden of their health care coverage. This latest mandate affects over 2,000 retirees and is the second phase in internal cost-cutting efforts initiated in 1993. The initial cost-cutting effort required former workers under age 65 to pay 60% of their medical premiums but suggested the full burden could shift as soon as 1995.

Age Discrimination Suit

A former employee of Liggett & Myers Tobacco Co. has alleged age discrimination against the company and filed suit in North Carolina. The plaintiff was let go from her job of 17 years at age 51. The suit was thrown out of federal court in October but is being appealed. A former Liggett executive recently corroborated the allegations and maintains the company discriminated on the basis of age during the reorganizations and downsizings.

OTHER U.S. TOBACCO COMPANIES

BUZ Cigarettes

The Exotic Tobacco Co., Ogden, Utah, has introduced a new cigarette, Buz, in the Seattle metro area. The brand is positioned as an alternative, unique, specialty product for the discerning consumer. Buz is specifically targeted at Generation X and more generally urban smokers aged 18-35 years. The company hopes to redefine the cigarette category much like microbrews did with beer.

Buz has been available in limited outlets since November and is distributed through both standard and alternative channels including cafes, nightclubs and coffeehouses. Limited availability is crucial to its specialty product and counter-culture positioning. Buz hopes to buck the mainstream brands with claims that they are "what your dad smoked" and "frankly...pretty boring." The funky, psychedelic packaging gives the brand a Grateful Dead feel and speaks to their target. The advertising copy boasts, "The new exotic smoke with industrial strength flavoring" and pictures a pack prominently displayed in the foreground. The headline declares "Get in Gear With Buz" and mechanical gears, tools and general industrial paraphernalia appear in the background. Their media strategy includes targeted publications in the Seattle area and billboards for out-of-home messages.

The field reports that Buz sales reps position it as Marlboro Lights with a vanilla scent. This seems to contradict the packaging, name and POS materials which tout flavor cues, masculinity and strength. The tipping paper is unique with a glossy, branded and colorful appearance. The overall impression is a cork-tip with a purple, circular branding device placed directly above.

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The brand is reportedly manufactured in Blaine, Washington. Product placement and merchandising are performed by an independent sales force (possibly the same outfit used by Export and American Spirit). The company utilizes a consignment-based sell-in that starts with the movement of 2 cartons. It is priced as a premium product; however, it may deliver higher margins to retailers than Marlboro. The wholesaler price has been reported at \$11.19 per carton (terms 3.5% 10 days, net 30). The company has a toll free number for reorders and offers 2nd day UPS delivery.

Exotic Tobacco's president, Randy Bishop, is 26 years old and employs a small, young staff of 4-5 people (average age: 27 years old). The company claims it is not another product dreamed up by older people at a larger company.

The February issue of the Tobacco Reporter revealed that U.S.-based National Tobacco Corp. recently acquired Exotic Tobacco Co., including the Buz Cigarette trademark and distribution. Randy Bishop, appointed president of Natural Tobacco Corporation, will continue to target Buz to specific markets, with a targeted national rollout to follow shortly thereafter. The cigarette will be introduced in some foreign markets (not identified).

Checkers Below Discount Cigarettes

A New York State wholesaler, King Maker Marketing Inc., has introduced its own low-priced line of cigarettes in an attempt to exploit recent price adjustments in the market. The product is being made available to convenience product wholesalers, supermarket distributors and direct retail accounts. The brand is manufactured by Fortune Tobacco Co. Inc., in the U.S. a subsidiary of ITC Ltd., based in India. Checkers is available in five packings: Full-flavored, Lights, Ultra-Lights, Menthol and Menthol-Lights.

Additional packings, including hard packs and 100 mm, are also planned. Racking, signage and other promotional materials are being made available to approved distributors and retailers. King Maker's president, Mark Finkle, said his company plans to sell Checkers to more than 25 distributors across the country.

Star Tobacco Corp.

Star Tobacco Corp., manufacturer of Gunsmoke cigarettes, appoints Ed Pape, formerly Vice President of National Trade Operations at ATC, as Vice President of Sales. At American Tobacco Mr. Pape led the development and field management of the American Value Alliance. Mr. Pape will help launch a new premium brand which, like Gunsmoke, will be offered at a deep discount price.

Gunsmoke adopts lower price

Star Tobacco's Gunsmoke brand reportedly will drop to subgeneric prices in an effort to be the lowest price offering in C-stores.

Free Spirit Cigarettes

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Kretek Distributors Inc., based in Moorpark, CA, announced the introduction of a new product, called Free Spirit (85mm soft pack).

The company claims the product is made from 100% natural tobaccos-additive free (no synthetic flavor enhancers, preservatives or burn accelerators).

The cost to distributors is \$11.19 per carton excluding SET. The suggested selling price to retailers is \$13.95 per carton (including \$3.70 SET). The suggested selling price to consumers is \$1.87/pack plus cigarette sale tax.

Introductory deals include buy five cartons-get two cartons free and buy 60 cartons-get 24 cartons free.

The product will also be supported by premium items such as lighters, T-shirts, and sweatshirts featuring the Free Spirit logo.

Free Spirit is currently being introduced to retailers in San Francisco.

The Free Spirit trademark was filed for registration by Kretek Imports, Inc. on December 2, 1994.

Other U.S. Tobacco News

Sanford C. Bernstein Predictions

Analyst Gary Black's report projects an industry-wide \$.04 pack price increase (+6%) in the next six to eight weeks (report dated 1/30). He believes PM has over-accrued \$350 million in marketing expense in 1994, and could achieve 10% growth in 1995 with no pricing action. However, pricing pressure could resurface if RJR's share abruptly declines. He forecasts the discount category to 32.5% in 1995, as retailers push premium brands to drive traffic and continued narrowing of the price gap.

On February 15, DOW JONES Staff Reporter Meera Somasundaram stated that tobacco industry analysts say prices are likely to rise this year but only by 3% to 6%, compared with average annual increases of 10% to 11% from 1980 to 1992. "Cigarette companies realize they got a little greedy in the 1980s," said Gary Black, who added that the industry isn't likely to return to that decade's pricing trend.

U.S. Cigarette Exports

The United States exported over 202 billion cigarettes during the first eleven months of 1994, up 14% from the year earlier period. The cigarettes were valued at \$4.53 billion, up 27% in value from 1993.

Burley Tobacco Purchases

It is expected that U.S. cigarette manufacturers will increase burley purchases to 385 million pounds for 1995, a 61 million pound increase compared to 1994 intentions.

Insect Resistant Flue Cured Tobacco

Entomologist Albert Johnson has developed a variety of flue-cured tobacco that is resistant to South Carolina's most expensive insect, the tobacco budworm. Johnson says that while budworms will continue to chew on the tobacco, they will quickly lose interest in feeding and die before maturity.

Further Evidence of Cigar Sales' Increase

Expensive foreign made cigars are experiencing a comeback. Premium cigar imports have jumped 29 percent over the last three years, even though they make up only six percent of all cigars sold in the United States. The Cigar Association reports that there are six to eight million cigar smokers in the U.S. and the number is increasing. Cigar clubs are cropping up across the nation where cigar lovers are welcome. Smokers describe it as an elegant affectation.

The Cigar of the Month Club recently announced that for \$20 a month it will bring a sampling of premium cigars into your home or office. A discounted price is offered for a one-year membership paid in advance. The club also plans smoker dinners, tobacco plantation tours, golf outings and corporate networking. Club-commissioned gift lines will also be available in the near future.

Dibrell Bros./Monk-Austin Merger Approved

The Federal Trade Commission approved the merger between tobacco leaf dealers Dibrell Bros. Inc. and Monk-Austin Inc. The merger must still be approved by both companies' stockholders, who are scheduled to vote in mid-March. After the merger, the company will be known as DiMon Inc., and its board will be evenly divided between members of the Dibrell and Monk-Austin boards.

Michael Miles Elected to Time Warner Board

Michael A. Miles, the former chairman and CEO of Philip Morris Cos., was elected to the Time Warner Inc. board of directors. An advocate of restructuring to enhance shareholder value, Miles joins the board just as Time Warner is pondering its own restructuring move for that same purpose.

On 2/28/95, Forstmann Little & Company announced that Michael Miles joined their firm as a special limited partner. Mr. Miles will be involved with certain Forstmann Little portfolio companies. Forstmann Little is a private investment firm that owns or controls eight companies with total combined revenues of over \$6 billion, including the Ziff-Davis Publishing Company, the General Instrument Corporation, and the Gulfstream Aerospace Corporation.

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Legal/legislative environment - summary

What	Who	Issue/Risk	New Steps/Implications
Class Action Litigation	Castano	Alleges nicotine addiction	<p>On 2/17/95, Judge Jones issued his ruling partially granting plaintiffs' request for class certification on the following liability issues: fraud, breach of warranty (express or implied), intentional tort, negligence, strict liability, consumer protection and punitive damages. The issues which Judge Jones ruled were not appropriate for class certification were: injury-in-fact, proximate cause, reliance, affirmative defenses, compensatory damages and medical monitoring. Judge Jones rejected plaintiffs' definition of the class and determined that the class should include "all nicotine- dependent persons in the United States...who have purchased and smoked cigarettes manufactured by the defendants; the estates, representatives and administrators...the spouses, children, relatives and "significant others" of these nicotine-dependent cigarette smokers...." Judge Jones defined nicotine-dependent as "all cigarette smokers who have been diagnosed by a medical practitioner as nicotine-dependent; and/or all regular cigarette smokers who were or have been advised by a medical practitioner has had or will have an adverse health consequence who thereafter do not or have not quit smoking." PM plans to seek an appeal to the Fifth Circuit Court of Appeals.</p> <p>(Brown & Williamson reportedly believes that the conditional certification of issues by the New Orleans court at the request of the plaintiffs is contrary to law. B&W will seek to appeal the decision.)</p>
	Engle	Alleges nicotine addiction	<p>On 12/14/94, defendants filed their brief in support of their appeal to the Florida Third District Court of Appeal of the 10/31/94 order granting plaintiffs' motion for class certification. Plaintiffs' brief in opposition to the appeal is due on 2/23/95. On 1/2/95, the Florida Court of Appeal denied defendants' motion seeking certification of the October order to the Florida Supreme Court.</p>
	Broin	Flight attendants' ETS claims	<p>On 1/11/95, defendants noticed their appeal of Judge Kaye's 12/12/94 order granting class certification. Defendants' brief in support of their appeal is due on 3/13/95. On 1/9/95, plaintiffs filed their brief in opposition to defendants' appeal to the Florida Supreme Court from the 3/15/94 decision of the Florida Court of Appeals that reinstated plaintiffs' class action allegations.</p>

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Legal/legislative environment - summary Cont'd.

Court Cases	Party	Issue/Risk	Significance
	Rogers	Smoking and Health	Opening statements were presented by both sides on 2/2/95. Thereafter, plaintiff presented her case-in-chief. On 2/14/95, Judge Johnson entered judgment in favor of defendants and against plaintiff on plaintiff's claim for punitive damages, ruling that plaintiff had not submitted sufficient proof to establish her claim. On 2/15/95, plaintiff rested her case. Defendants then proceeded to offer their defense on 2/15-2/16 and rested their case at the close of the day on 2/16/95. On 2/21/95, closing statements were presented by both sides and the jury was given the case at approximately 2:00pm and deliberated until 4:30am. The jury returned at 11:30am on 2/22/95 and continued deliberations through 6:45pm at which time the jury advised they were at an impasse and Judge Johnson declared a mistrial.
	PM-ABC	Libel	On 1/31/95, PM completed production of documents that PM agreed to produce in response to defendants' first request for the production of documents. On 1/26/95, Judge Markow granted PM's motion to compel ABC to disclose the identities of its "confidential sources" by 2/5/95 and denied ABC's motion to quash subpoenas filed by PM against non-parties allowing PM to obtain identifying information in the hands of those non-parties. On 1/30/95, in response to ABC's emergency application, Judge Markow stayed his 1/26/95 order pending the submission of additional briefing documents by all parties and scheduled a hearing on the matter for 3/1/95.
	Ramsey-Buckingham	ETS	Plaintiff alleges she has lung cancer as a result of her exposure to environmental tobacco smoke. Plaintiff has filed a motion asking the court to convene trial prior to 9/5/95 due to her purported ill-health. Defendants have filed a motion in opposition and a case structuring conference was scheduled for 2/6/95.
Smoking Restrictions	OSHA	US workplace smoking restrictions	Hearings began 9/20. The focus of testimony now through March 9 will be on the impact of the proposal on businesses. RJR testified January 17 - 19; Steve Bayard of the EPA did not testify as scheduled.
State Medicaid Bill	Massachusetts	A medicaid bill (Florida-type) was introduced in Massachusetts.	The bill would authorize the Attorney General to bring suit against cigarette manufacturers, and to retain the services of private counsel. It would take away the defenses of assumption risk, comparative and contributory negligence.

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Legal/legislative environment - summary Cont'd.

State	Where	Issue/Risk	New State(s)/Implications
Medicaid Suits	Florida	Medicaid Suit	<p>On February 21, Florida filed suit under a law passed last year that allows it to go after third parties which are thought to be responsible for increased Medicaid costs. The lawsuit is based on an unconstitutional statute that was passed through the legislature in an unconstitutional manner, and is being brought by an illegal, independent agency. The law passed last year is a blatant attempt by the trial bar to ensure a multitude of future big-dollar suits against Florida businesses. The Medicaid Act attempts to stack the deck in favor of the State against anyone it chooses to sue under the statute, including for example the alcohol industry.</p> <p>Philip Morris and RJ Reynolds Tobacco Company filed a petition with the Florida Supreme Court asking the Court to bar the Agency for Health Care Administration and the Department of Business and Professional Regulation from filing or maintaining the lawsuit.</p> <p>(According to published reports, state Republicans and Democrats agree there are enough votes to repeal the law, but Gov. Chiles has vowed to veto any repeal attempt. It was unclear if there are the two-thirds votes necessary to override a veto.)</p>
	Mississippi	Medicaid Suit	<p>Last May, the Mississippi Attorney General filed suit in chancery court, alleging that the tobacco companies should reimburse the state for Medicaid costs attributed to those who allegedly suffer from smoking related illnesses. The tobacco companies moved to dismiss that complaint and alternatively moved to transfer the lawsuit to circuit court, where the case could be tried by a jury. On February 21, Chancellor William Meyers, in a one page order, denied the defendants' motions and granted the plaintiff's motion to strike certain affirmative defenses. The defendants are considering whether to seek a clarification of the court's order and/or leave for an immediate appeal.</p>

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Philip Morris

- *Star Tobacco Corp.*

Philip Morris filed an unfair competition suit against Star Tobacco Corp. in federal district court in New York for wrongfully imitating Marlboro with its cowboy-themed marketing campaign for its Gunsmoke cigarette brand.

Philip Morris is asking a New York federal district court to prohibit Star Tobacco from selling or advertising Gunsmoke in any way that exploits the Marlboro image. Philip Morris seeks recovery of any profits made from the sale of Gunsmoke cigarettes and triple damages resulting from "such false advertising."

- *ABC Day One*

A judge originally ruled on Friday, Jan. 27, that ABC must reveal the identity of a confidential news source, "Deep Cough," only to rescind his ruling on Monday, Jan. 30. The judge granted ABC a second opportunity to forge arguments against his order. The order has been delayed until March 1 and the trial is scheduled for June 5.

R.J. Reynolds Tobacco Co. filed suit on February 22 over stories presented in ABC's "Day One" news magazine that claimed the tobacco industry manipulates the nicotine level in cigarettes in order to hook smokers. The claims in the suit are very similar to those filed by PM in our \$10 billion lawsuit against ABC. Trial is scheduled for June.

Reynolds Suggests OSHA Used Flawed Data

In a recent OSHA hearing, RJR told the Labor Department that studies used to support its proposed ban on smoking in the workplace as a health hazard were flawed. A Reynolds scientist, Chris Coggin, told OSHA that the studies used the wrong test material and the concentrations involved were inappropriate. Coggin claims that instead of using environmental tobacco smoke (ETS), "most of the studies used fresh mainstream smoke, which is...very different from ETS." In addition, previous testimony revealed that the smoke concentrations used in some studies were "phenomenally high," and that studies "without major drawbacks were only considered in a cursory way by OSHA."

B&W's "Confidential" Documents Found in Public Library

According to the Associated Press, copies of the controversial internal B&W documents have been available at the University of California at San Francisco medical library for the past several months. B&W contended that the documents were stolen by a former paralegal and was in the process of suing to keep the documents confidential.

B&W is seeking a delay in a Mississippi Circuit judge's order to turn over more than 4,000 pages of internal documents for his review in connection with the Butler court case.

The two parties agreed to leave the documents at the University in a sealed vault pending a March 17th hearing.

A.C. Nielsen Probed by Justice Department

The U.S. Department of Justice asked A.C. Nielsen Co. for documents related to syndicated sales tracking services as part of an effort to evaluate the competitive nature of certain market behavior. Nielsen confirms that it is responding to the request.

Health Care Recovery Bill Introduced in California

California state Sen. Diane Watson and Assemblyman Richard Katz introduced legislation that would allow the state and insurance companies to sue tobacco companies. The bill would remove a specific exemption which states that manufacturers can not be held liable for products that are thought to be inherently unsafe. State Attorney General Dan Lungren is said to favor an approach that adds a surcharge to cigarettes to cover health expenses.

Proposed Taxation

- Introduced FET Legislation

Sen. Mark Hatsfield (R-Ore.) and Sen. Bob Graham (D-Fla.) introduced legislation to increase the cigarette tax by \$1 per pack to finance reforms by Florida and Oregon in health care programs. Would also impose a floor stocks tax on both wholesalers and retailers, allowing only for a \$500 tax credit. Would take effect 1/1/96. The senators estimate the tax increase would provide around \$10 billion a year to help states implement reforms.

- Senator Kennedy Introduces Universal Health Care Bill

Sen. Kennedy (D-MA) would establish a universal health care system cited as the "Affordable Health Care For All Americans Act." Would increase the cigarette excise tax by \$1.50 per pack (from 24¢ to \$1.74) to finance subsidies for low-income persons and small businesses.

- New York Excise Tax Recommendation

The New York State Health Department is considering recommending drastically higher cigarette taxes and requiring antismoking signs in restaurants and other establishments where smoking remains legal. The recommendation would increase the state cigarette tax from 56 cents to \$1. The tax hike requires Governor Pataki's approval and the sign requirement would have to be approved by the Health Commissioner.

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- Arizona SET

The coalition that backed the 40 cent a pack tax in the November election defeated an attempt by Rep. Jeff Groscost, R-Mesa, to divert the proceeds of the tax to the state's general fund. The initiative passed in the November general election specified that 70% of the proceeds be set aside for indigent health care and the remainder for anti-smoking education, research into smoking-related illnesses and a prison construction fund. Republican legislative leaders opposed the measure on grounds it bypassed the Legislature and appropriated money directly to hospitals and other private interests.

- South Dakota Senate Rejects Proposed Cigarette Tax Increase

The South Dakota Senate rejected by a 19-15 vote a measure that would have raised the state tax on cigarettes by 10¢ a pack, making it 33¢ a pack. In South Dakota, any tax increase must receive a two-thirds majority vote -- or 24 votes -- to pass. Although the bill was sponsored by Democrats, most Democratic senators voted against it.

Plaintiffs With Disability Argue for Smoking Restrictions

In a Dallas federal court, Judge Barefoot Sanders denied the claim of two women who say that the Americans With Disabilities Act entitles them to a smoke free environment. Diane Emery, who has cystic fibrosis and Patricia Young, who has asthma, claim that the Caravan of Dreams nightclub in Fort Worth, Texas, by allowing smoking, prevented them from seeing performances. The Department of Justice refused to issue a policy on smoking when asked by Emery.

Local Ordinance in Woodbridge, IL

Tough anti-tobacco provisions covering under-age tobacco sales enacted in Woodbridge, IL, in 1989 are credited with cutting teen smoking rates to a fraction of the national level. The law is considered model legislation throughout the United States. Both merchants and minors are held accountable. Retailers can be fined up to \$500 for the first offense and have their city-issued tobacco sale licenses suspended or revoked for repeat offenses. Moreover, a minor in possession of tobacco is handed a \$25 ticket and a \$50 ticket if caught purchasing the product. Each of the city's 35 tobacco merchants receives a visit from an undercover teenage decoy to evaluate proof-of-age practices.

Automatic Smoking Ban for Connecticut Prisons

Any new prison that opens in Connecticut is automatically a smoke-free institution. A ban is currently enforced in 17 of the 27 state institutions. A spokesperson for the Department of Corrections commented that the department is dedicated to the concept and that the ban also acts to prevent cigarettes from being used as currency.

Dunkin Donuts Bans Smoking

Dunkin Donuts banned smoking in all of its 3,000 outlets, which includes company-operated and franchise shops, effective June 1. The company has said that it will also ban smoking in its 600 outlets outside of the United States.

LAX Bars Ban Smoking

The city of Los Angeles extended its 1993 ban on smoking in all terminals at Los Angeles International Airport to include airport bars. The remote international terminal lounge is the last remaining smoker-friendly area.

SMOKING CESSATION

McNeil Relinquishes Rights

McNeil Consumer Products Company, a division of Johnson & Johnson, relinquished all rights to LecTec's non-nicotine smoking cessation product which was undergoing clinical studies to determine its effectiveness. Results from the study are expected in March and, if the results are favorable, LecTec will immediately begin efforts to find a new marketing partner.

International Tobacco News

Germany Accepts RJR's Eclipse

The German Federal Ministry of Health has given RJR permission to import the Eclipse brand cigarette into Germany, although the product does not meet all the requirements of the German Food and Beverages Act. The product, subject to specific conditions, is being placed on the market for the purpose of conducting a market study. The exception to the Act limits the total quantity of the imported product to 400,000 pieces. The exception shall be applicable for the period until August 31, 1996; it can be revoked for due cause at any time before this period expires.

Legal Aid Given in U.K. Case

Limited legal aid was granted by the Legal Aid Board for England and Wales to a reported two hundred people in the United Kingdom who claim to be suffering from smoking-related illnesses. This marks the first time that legal aid has been given to support a significant number of claims against the tobacco industry.

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The recipients, who qualify for aid because of low incomes, could be joined by other claimants in a multiparty action, which is similar to a U.S. class action. A lawyer for the plaintiffs said the main targets will include Philip Morris, Rothmans, American Brands' Gallaher Tobacco, and Hanson's Imperial Tobacco. The U.K. lawyers are planning a negligence claim, arguing that manufacturers failed to reduce or eliminate the alleged hazardous contents of cigarettes.

Cigarette Ad Ban Challenged in Australia

Philip Morris will continue its legal action against the Australian federal government's ban on cigarette advertising. "Philip Morris protests the power of government to deny any group of Australians their right to communicate legitimate views on important social, public and commercial issues. In the case of the tobacco industry, this right continues to be substantially denied."

Privatization of SEITA

The French government initiated its privatization program for 1995 by launching the sale of tobacco monopoly SEITA in late January.

La Moderna Cigarette Production in Vietnam

Mexican cigarette producer and distributor Cigarrera La Moderna (CLM) reached an agreement to manufacture and distribute its Montana Cigarette brand in Vietnam, beginning in September 1995. The agreement calls for CLM to export all production materials, including tobacco, to Vietnam.

Fabric Developed in Japan to Fight Tobacco Odor

Several Japanese firms have recently introduced synthetic textile products containing deodorants that absorb tobacco smoke. One company, Asahi Chemical Industry Inc., claims the fibers remove tobacco smoke odor in a small room within one to two hours. It is not yet known whether the fabric will be available worldwide.

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